



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 9/5/2003

GAIN Report Number: CH3120

China, Peoples Republic of

Tree Nuts

Annual

2003

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Report Highlights:

China's tree nut production continued to increase in 2002 and 2003 as the primary growing regions experienced improved weather conditions and bearing acreage increases. Changing consumer perception of tree nuts as a snack food as opposed to a traditional health food appears to have contributed to increased imports and domestic consumption. In addition, the marketing of nuts for the retail market has become more targeted and effective, especially in larger Chinese cities such as Beijing, Guangzhou and Shanghai.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Beijing [CH1]
[CH]

Table of Contents

Executive Summary	3
Production	4
Wholesale Market Price Information	8
Consumption.....	9
Trade - Walnuts	11
Trade – Other Tree Nuts, in-shell or shelled	11
Trade Tables	14
Policy	16
Tariff Rates	16
Marketing	17

Executive Summary

Chinese tree nut production continues to increase as acreage planted over the last several years begins bearing nuts. Growers continue to increase planted tree nut acreage as this fits into China's goal of retiring land for economic and ecological tree crops. In addition, as scientific advances allow for improved matching of a variety of tree nuts with the more suitable terrains, tree nut production should become more efficient, diversified, and profitable for growers who are able to increase tree planting density.

Most tree nut production improved over the last year as key provincial production bases saw better yields due to favorable weather conditions. Unofficial 2002 estimates from China's State Forestry Administration (SFA) for walnut planting area and production are 890,000 hectares (Ha) and 340,000 metric tons (MT). Provincial tree nut specialists, however, indicate the actual volume of walnuts reaching market was likely below 300,000 MT.

Although not marketed as such, many consumers maintain a belief that nuts are a health/functional food that provides specific health benefits. However, as Chinese consumer disposable incomes and awareness of global trends have increased, many consumers view nuts as a snack/leisure food. Retailers are anxious to market tree nuts as a snack/leisure food where the product can command a premium price. Use of nuts in the processed food (bakery and confectionary) and pharmaceutical sectors continues to grow as well.

As China's Customs office has begun making more complete trade data available, trends in tree nut trading are easier to obtain and examine. Also, as tariff rates decrease, it appears demand for tree nuts in large cities has risen, thus encouraging greater direct trade of tree nuts to mainland China. However, there are still trade discrepancies between different country customs data. For example, China Customs recorded volume and value for tree nut imports from the United States are at a level much higher than US Customs BICO export volume and value data indicate for the combined China, Hong Kong, and Macau markets.

The China tree nut market, as it pertains to processors and distributors, remains price sensitive and thereby a barrier for some U.S. high quality tree nuts. However, as demand for products using processed nuts increases, the U.S. nut trade should remain competitive. It appears there continues to be a good market for bakers and confectioners in need of high quality and consistently sized products with no foreign matter.

There are no new additional policies encouraging tree nut production of which post is aware. However, tree nut production is considered to be an important part of China's Poverty Alleviation Program. In addition, China continues to implement the *Sloped Land Conversion Program (SLCP)* that allows for tree nut plantings in economic and ecological forests. By 2012, China's SFA intends to have a total walnut planting acreage of 1.41 million (970,000 Ha of newly planted trees and 440,000 Ha of trees improved through grafting). The SFA admits, however, that the goal may not be achieved.

Production

Walnut Production by Province, 1996-2002 (Volume: Metric Tons)							
Province	1996	1997	1998	1999	2000	2001	2002*
Yunnan	55,448	58,709	57,168	60,452	68,788	68,568	**75,000
Shanxi	34,236	37,376	40,365	39,724	46,988	40,215	**48,000
Sichuan	27,720	23,409	28,711	23,842	32,095	32,744	**35,000
Hebei	21,742	27,905	29,441	30,365	30,102	28,761	**35,000
Henan	13,534	12,898	12,248	13,428	17,143	13,387	**18,000
Xinjiang	6,695	7,213	8,362	15,779	11,523	11,727	**16,000
Shaanxi	30,433	26,222	32,519	33,340	34,498	10,596	**40,000
Others	20,025	27,517	27,481	37,230	37,777	46,349	**73,000
Total	237,989	249,834	265,121	274,246	309,875	252,347	*340,000
*2002 Total production data is estimated by China's State Forestry Administration							
** 2002 Provincial production estimated by Ag. Affairs Office							
1996-2001 Source: National Statistics Bureau							

Walnut production had steadily increased as trees planted in the 1990s have begun bearing walnuts. In 2001, many growing regions suffered unusually cold weather during spring bloom that resulted in sharp walnut production declines. China's forestry specialists attribute increased walnut production in 2002 to increased bearing acreage and improved weather conditions. In addition, many of the walnut trees are improved varieties that have been grafted and adapted to growing regions in an improved, more scientific manner. These improved varieties can be planted more densely than traditional ones and produce nuts earlier and maintain commercial production over a longer period. Indications are that production increased in 2003, as there were no reports of spring weather damage.

At present, SFA tree nut specialists indicate around 90 percent of walnut trees are bearing nuts. SFA specialists also report China had around 890,000 Ha of walnut trees planted in 2002 and their goal is to improve around 160,000 Ha of walnuts in 2003 under the *SLCP*. Of the 160,000 Ha, some areas would be newly planted while the majority of the remaining areas would introduce improved walnut tree varieties through grafting. SFA tree nut specialists indicate 2002 almond (sweet and bitter) production was around 80,000 MT.

Chinese walnut planting area consists not only of commercial groves, but also traditional walnut planting acreage comprised of trees growing wild in large numbers over mountainous areas and trees that grow in small numbers around rural homes. Beginning with the USDA FAS 2000 Tree Nut Annual, this office has endeavored to include commercial area plantings and the portion of plantings that occurs around rural households.

Indications are that tree nut specialists have increased extension efforts to encourage growers to plant walnut trees more commercially; such as in rows between grain or vegetable crops and along sloped lands being reclaimed under the *SLCP* (see Policy). As this happens, commercial plantings are expected to increase and occupy a larger share of total planted area. In addition, the planting density is expected to increase as trees in commercial groves are planted closer together.

As traditional production represents the largest share of walnut production and occurs in highly remote areas, developing an accurate official production volume estimate is a challenge. Therefore, estimated nationwide production volume may not reflect the volume of Chinese walnut production reaching the commercial market. According to available

production data, 2001 production was over 252,000 metric tons (MT). This was a sharp decrease from the previous year due to inclement weather in some provinces within western China in addition to the alternate bearing cycle of walnut trees. Official published statistics for 2002 and 2003 are not yet available, however, SFA specialists predict nut production was higher than 2001 by around 30 percent. SFA specialists indicate production was around 340,000 MT, however, provincial specialists indicate the portion of production that reached commercial markets did not exceed 300,000 MT.

The State Statistical Bureau and the State Forestry Administration are faced with a problem that many growers do not report their production data or planting acreage. It appears most growers produce a small volume of walnuts and the growers may not feel obligated to report their production. When considered using an individual grower-by-grower basis, production is not noticeable. However, when multiplied by the vastness of overall growers, there is room for large discrepancies in production data. Also, production data collection is difficult since many growers consume nuts on the farm; both fresh and crushed for home cooking oil. In addition, growers have little incentive to report large production as they could be assessed a specialty product agricultural tax. According to provincial officials, the tax is collected, but in practice, the effective tax rate is lower than what is reported. One of the reasons for the lower collection rate is that many programs have been launched or publicized in the last several years to lower the tax burden of Chinese growers and farmers in order to allow them to remain on the farm and compete in the global agricultural market.

Chinese forestry/walnut production specialists categorize traditional walnut production into two growing areas: North and South. Specialists indicate northern walnuts are from Persian variety walnut trees, whereas, traditional southern walnuts are from black walnut trees. Specialists elaborate there are five primary mountain ranges within China where walnut production is most suitable. These mountain ranges are the: Yungui Mountainous Area Plateau (Yunnan and Guizhou), Qingba Mountainous Area (Sichuan and Shaanxi), Taihang Mountainous Area (Henan, Hebei, and Shaanxi), Luliang Mountainous Area (Shanxi), and Yanshan Mountainous Area (Hebei and Beijing).

According to tree nut specialists, seedling stock from the following varieties performed well in research trials: Chandler, Chico, Franquette, Hartley, Serr, and Vina. These varieties are being used in central and northern parts of China. The varieties are suitable for several reasons, including; nut production, ecological or climactic attributes, and growers do not need to compensate for new-plant variety protection. Specialists continue to experiment with walnut grafting to produce more walnuts per tree, larger and more uniform walnuts, thin shell walnut varieties, larger kernel walnuts, lighter colored walnut kernels, shorter trees for easier harvesting, trees with greater drought resistance, and trees that will pollinate at different times. At present, the Walnut Research Institute under the State Forestry Administration recommends over 50 walnut tree varieties. Of these, 16 are strongly encouraged, but provincial forestry research institutes are able to recommend other varieties that are most suitable for the local conditions.

In Yunnan, southwestern China, improved varieties are crossbred from northern and southern walnut stock (J. Regia and J. Sigillata; respectively). After being crossbred, the improved seedlings are often grafted or top grafted with other walnut tree varieties that are suitable for the ecological demands of the region.

Nearly one-fourth of China's reported walnut production occurs West and North of Yunnan's provincial capital Yunnan. The main growing areas (Dali, Baoshan, Lijiang, and Chuxiong) are located in mountainous areas that have clay soils, cool to mild temperatures, and a long rainy season lasting several months as well as a dry season. Yunnan's provincial forestry bureau officials indicate 2001 walnut production was over 68,000 metric tons (MT) and 2002

and 2003 production increased over 2001 but did not surpass 80,000 MT. It appears much of Yunnan's production is consumed within China as local nuts have thinner shells allowing for in-shell sale and in-home shelling. Many of the thicker shelled nuts from the region are normally crushed for oil.

Provincial data for Yunnan along with verified reports from forestry specialists indicate there is some development of cashew and macadamia nut production in the Xishuangbanna region. Forestry officials, however, have little data on the development areas because the projects are organized by China's Tropical Agricultural University from Hainan province.

In Xinjiang, Northwestern China, specialists report the area has a long history of J. Regia walnut production; especially in the Kashgar, Hotan, and Aksu districts. The province continues planting walnut trees under the *SLCP* and has walnut bearing acreage of 12.1 thousand hectares. These specialists also indicate that unlike southern varieties, the alternate bearing cycle of northern walnut trees is minimal to non-existent. Currently, the specialists report that although there are 26 varieties of walnut trees planted in the province, only nine are considered suitable for the region due to their cold tolerance and stable nut bearing. Xinjiang encounters significant temperature extremes ranging from -40 in winter to 40 degrees centigrade in summer. Despite the long production history, specialists are still researching the most suitable cold tolerant varieties and exploring the planting or expansion of other trees in the province such as Pistachio, Chestnut, and Almond (BaDaMu) trees.

According to Xinjiang forestry specialists, there are 18.6 commercial hectares of pistachio trees planted in the province. In 2002, however, only 1.6 hectares produced nuts. If one large foreign invested business plan is approved, however, the province could see a total of 13,333 hectares of commercial pistachio trees planted by 2010. At present, however, specialists indicate the government is still reviewing the types of varieties to plant and the details of the plan are undergoing financial feasibility and ecological suitability studies.

Xinjiang almond (BaDaMu) production areas are located in the southern part of the province near Kashgar. Specialists indicated the region has over a thousand year history of growing almonds, but very little of the production is commercial. Xinjiang provincial forestry specialists indicate that there was a total of 6,600 hectares of almond trees planted in 2002. However, specialists reported that only around 3,100 hectares of trees were bearing nuts and that the bearing trees produced around 600 metric tons of almonds. Specialists would like to see total almond planting acreage exceed 33,300 hectares by 2010. Almond and pistachio accumulators/traders indicate it is becoming easier to acquire larger volumes of nuts. In addition, it appears delivering nuts within as well as to other provinces, is becoming more efficient. Traders, however, indicate production is very limited and likely won't be able to meet domestic demand for many years. SFA specialists indicate that almonds and pistachios are considered a minor economic tree nut crop and there is little nationwide data available for these commodities.

Although walnut planting acreage for the central provinces of Shanxi, Shaanxi, and Hebei is not as large as some other provinces, growers in the mountainous regions of these three areas have been able to plant or graft high yielding walnut trees in high density. In each of the last several years, these three provinces accounted for around 30 percent of China's walnut production. Also, since these provinces do not suffer from dramatic climate extremes, walnut production from the region is often from early arrival varieties. It appears growers appreciate the walnuts as an early arrival crop, but will abstain from planting greater acreage to tree nuts. This is chiefly due to the fact that growers see better profit prospects from producing certain fruit crops, including; cherries, dates, kiwis, apples, and grapes.

PSD Table

Country Commodity	China, Peoples Republic of Walnuts, Inshell Basis					
	(HA)(1000 TREES)(M					
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Estimate [USDA Official [Estimate [USDA Official [Estimate [
Market Year Begin	10/2001	10/2001	10/2002	10/2002	10/2003	10/2003
Area Planted	666000	666000	699000	890000	0	900000
Area Harvested	463000	400000	496000	750000	0	765000
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	279000	252347	320000	340000	0	350000
Imports	900	939	500	887	0	1250
TOTAL SUPPLY	279900	253286	320500	340887	0	351250
Exports	17000	15806	25000	15202	0	22000
Domestic Consumption	262900	237480	295500	325685	0	329250
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	279900	253286	320500	340887	0	351250

Wholesale Market Price Information

(USD 1 equals RMB 8.265)

Beginning last year, China's Ministry of Agriculture began publishing information on individual wholesale markets and average sales prices for a variety of major agricultural goods available on its website (<http://www.agri.gov.cn>). The information is aimed at providing domestic growers and traders with greater knowledge about market conditions for agricultural goods around the country. The website provides no data regarding fruit quality or trade volume and does not distinguish between local and imported products that have filtered into the local market. The positive side, however, is that the information, albeit limited, provides a general indicator for market prices in different regions.

Wholesale walnut prices have remained stable over the past marketing year (around RMB 10/kg). As expected, wholesale prices are lower in the months of November and December just after harvest when supplies are greater. Following that, prices increased prior to the Chinese New Year when demand for goods like fresh fruits and fresh nuts is often at its highest. Then, into late spring and early summer as domestic nuts became scarcer, walnut wholesale prices increased. Finally, prior to the new harvest, it appears wholesalers lowered sales prices in order to deplete inventory and sell out old or rancid nuts.

Walnuts (RMB/kg)	2002	2002	2003	2003	2003	2003	2003	2003	2003	2003
Market	Nov. 6	Dec. 12	Jan. 9	Feb. 11	Mar. 11	Apr. 7	May 12	Jun. 6	Jul. 9	Aug. 8
Beijing Dazhongci			10	10						
Beijing Baliqiao		10	10	10						
Beijing Shimen		8	11	10	10		10	10		
Tianjin Hongqi	9.5	9.5	10	10	10	9	9	9.5	10	
Pudatong Zhenhua							10		10	10
Jin Taiyuan Qiaoxi			11	12	10					
Neimeng Shiyangqiao					11	10				
Mudan Jiang Shucai	10	10	8	10	10	10	10	10	10	8
Qingdao Chengyang	11		12	12					12	12
Guiyang Wuxingchong										10.6
Xuzhou Qiligou	5.8	9	9							
Chongqing Yongchuan	7							8		
Qinghuangdao Haiyang	14									
Qinghuangdao Changli	10	10	10		9					
Shangbin Nongchanpin	7.4	7								
Yiweixian Tianxian			10	10						
Eqianjiang Jiangshan	12	8	8	8			12			
Puyuncheng Shucai		4.1								
Puyuncheng Guopin						7.9				
Average	9.63	8.4	9.91	10.22	10	9.22	10.2	9.38	10.5	10.15

Source: Ministry of Agriculture

Consumption

According to tree nut specialists in Yunnan, about 70 percent of the provincial production meets exceptional or good quality grades. Of the exceptional and good quality nuts, specialists report about 80 percent is traded to other provincial or overseas markets. The remaining 20 percent of these nuts are given simple processing such as cracking, shelling, or in-shell flavoring/seasoning. Of the 30 percent of provincial production that falls outside of these grades, most is crushed for oil (home cooking walnut oil and consumer retail walnut oil). Smaller portions are processed into beverage drinks, powders, food additives, and pharmaceuticals/traditional Chinese medicines.

Xinjiang tree nut specialists report nearly all of the walnuts and other tree nuts produced in the province are for fresh consumption. Some of the nuts, however, they report do undergo some simple processing such as cracking, roasting, or seasoning. Furthermore, they report that although there is some interest in using tree nuts as a food additive and value added product, at present, there is not enough supply for the processing industry to take an interest in developing facilities. And, without such processing facilities, the specialists report that growers will not plant more trees or try to better manage current trees.

While many nuts are consumed fresh in Shanxi, Shaanxi, and Hebei, reports indicate most walnut exports originate from nuts produced in these provinces. As well as a highly developed shelling, seasoning, and packaging industry for walnuts and other tree nuts in these areas, there are also facilities that supply walnut oil to retailers throughout the country. In addition to walnut oil, many of these processors supply walnut and nut powders and pharmaceuticals such as digestive aids derived from tree nuts and capsules containing walnut oil to retail outlets nationwide.

Chinese consumers tend to prefer in-shell nuts that can be cracked by hand. The nuts are considered more sanitary and have the added consumer benefit that the nuts are a little less expensive than shelled or processed nuts. Walnut demand is often highest during the Chinese lunar New Year in late winter or early spring. Demand for walnuts is also high during China's mid-Autumn festival in late September that is met by fresh domestic nuts. In addition, Walnuts traditionally have been considered a health/functional food with attributes benefiting healthy hair, brain, and kidneys. However, according to some large retailers, it appears walnuts and other nuts are being considered more of a leisure snack food. Therefore, retailers are beginning to position walnuts and other packaged nuts along with snack food items in their stores.

Consumption of packaged and processed walnut and other tree nut products seems to be greater in large cities like Beijing, Shanghai, and Guangzhou. However, consumers in China's emerging city markets are trying to catch-up with these larger cities trends and are consuming walnuts and other tree nuts as a snack food purchase from retailers in greater frequency. The growth of overall sales in retail stores and hypermarkets versus traditional Chinese markets is not, however without growing pains. This past year, a major retailer ran into dispute with a municipal nut association that represents several different nut processors. The dispute centered on slotting fees for processed and packaged tree nuts that, in the end, was resolved by an announcement from the retailer to lower fees.

According to processors and traders, bulk bin walnut and other nut sales in large inland cities and provincial county seats surpass sales of packaged nuts. In addition, consumption of packaged and flavored walnuts has been increasing. In spite of this, some processors see the market stagnating and are looking to replicate successful sales strategies from other markets. Thus, many processors are trying to combine other flavorings or coatings with nuts (e.g. coconut, honey, sesame, or brown sugar) in order to further segment the market and reach more snack food consumers.

As China's baking industry has developed, many bakers and confectionary shops are using walnuts and other tree nuts as an ingredient in breads, cookies, cakes, and muffins. Bakeries in retail stores, hotels, as well as in private bakeries and bakery chains almost always have walnuts and tree nuts added to some of their breads and baked goods. Shops report the items retail very well and one retailer with an in-store bakery reports banana bread with walnuts is the leading bakery sales item in the store; which routinely gets more than 6,000 customers a day. Another national retailer reports their franchised store locations around the country have a strong interest receiving training on how to use other nuts in bakery items or at least information and recipes about bakery items that contain walnuts and tree nuts.

Trade - Walnuts

Over the past several years, China imported a lot of in-shell walnuts while its imports of shelled walnuts were few. In the past, in-shell nut imports were sold to retail stores, wholesale markets, and processors that shelled the nuts for the food ingredient sector or for re-export. However, this year, imports of in-shell nuts are much lower and imports of shelled walnuts have increased. In the first three quarters of the October 2002 to September 2003 marketing year, in-shell imports were 462 MT compared to over 850 MT for the same period the previous year and shelled walnut imports were over 300 MT compared to only 16 MT. Indications are that increased imports of shelled nuts stems from greater awareness of using high-quality walnuts in the bakery sector along with increased affordability of shelled walnuts due to lower Chinese import tariffs (see Policy). In addition, it seems that certain attributes of Chinese in-shell walnut quality has improved and there is less need for imported in-shell nuts featuring the same type attributes. This past year, the largest share of shelled walnuts imports entered China via the northern ports of Qingdao (189 MT), Tianjin (92 MT), and Dalian (19 MT) while the majority of in-shell imports entered China through the central and southern ports of Shanghai (260 MT), Shenzhen (133), and Guangzhou (48 MT). (Note: many companies operate processing and distribution facilities in southern China for re-export or to other parts of China).

Exports of Chinese walnuts (in-shell, shelled, and packaged) increased in the first three quarters of the marketing year; giving further support to increased 2002 domestic production. The top export destinations for in-shell walnuts for the first three quarters of the marketing year (1702 MT through June) were regional neighbors and middle-Eastern nations; e.g. North Korea (663.5 MT), Lebanon (328.5 MT), South Korea (305.5 MT), the United Arab Emirates (215.8 MT), Vietnam (68.3 MT), Hong Kong (49.2 MT), and Algeria (35 MT). Most in-shell exports for northeast Asian countries were from the northern ports of Dalian (571 MT), Qingdao (361 MT), Tianjin (228 MT), and Changchun (113 MT). Trade for middle-eastern and Southeast Asian countries originated from Shenzhen (246 MT), Huangpu (100 MT), and Kunming (66 MT). Chinese traders do not anticipate export competition from American or other country suppliers because Chinese nuts are cheaper, have shorter trade routes, and enjoy consumer familiarity with the products. However, over the past several years, it appears China's in-shell walnuts often face little export market potential in the fourth quarter of the marketing year (i.e. July through September).

Shelled walnut exports from China continue finding a welcome market in developed nations around the globe. In fact, during the first three quarters of the 2002/2003 marketing year, China exported over 7500 MT of shelled walnuts. The top five export destinations for shelled walnuts included: the UK (1764 MT), Japan (1497 MT), Canada (909 MT), Germany (524 MT), and Hong Kong (470 MT). Over half of the exports have originated from Tianjin (4825 MT), but Qingdao (813 MT), Dalian (590 MT), Shenzhen (504 MT), and Guangzhou (255 MT) have exported large volumes, as well. Again, as with in-shell walnuts, large export volumes during the last quarter of the marketing year traditionally do not occur. Germany and Japan comprise the largest export destinations for packaged walnut kernel exports. Through the first three-quarters of the 2002/2003 marketing year, China exported roughly 777 MT of which Germany received 723 and Japan 33 MT respectively. As has been the case for the past three years, most packaged walnut exports originate from the Port of Tianjin after production and packaging in the Hebei, Shaanxi, and Shanxi provinces.

Trade – Other Tree Nuts, in-shell or shelled

(Cashews, Almonds, Hazelnuts/Filberts, Pistachios, Macadamia Nuts)

Perhaps the most noticeable trend over the first three quarters of the marketing year is that import trade volume for all of the above mentioned nuts, with the exception of shelled cashews and shelled hazelnuts/filberts, is lower. It appears as higher prices on the world market may have had impacted imports since China is still not a commercially viable

producer of these nuts. Vietnam continues to be the largest supplier of cashews (in-shell and shelled) to China with the vast majority of imports arriving in the Chinese ports of Nanning, Kunming, Shenzhen and Guangzhou.

As for the 2028 MT of in-shell almonds imported in the first three-quarters of the 2002/2003 marketing year, the United States, Turkey, and Pakistan are the largest three suppliers with 1319 MT, 233 MT, and 151 MT respectively. (Note: World Trade Atlas data September through June for Kyrgyzstan and Kazakhstan appears incomplete, but the two nations are also large suppliers. In addition, because China Customs does not distinguish between sweet/bitter almonds and apricot kernels, it's difficult to ascertain almond trade volume). It does appear most in-shell imports arrive in the southern ports of Shenzhen, Guangzhou, and Shantou. Chinese Customs in Urumqi, Xinjiang, record imports from central Asia.

The United States is the overwhelming supplier of shelled Almonds to China with 427 MT of the 451 MT imported in the 2002/2003 marketing year. Interestingly, however, is that although Guangzhou (156 MT) and Shenzhen (155 MT) continue to be the largest import locations for shelled almonds, Beijing (89 MT) and Shanghai (19 MT) are importing larger volumes of shelled almonds, as well. Although not confirmed, this could be an indication that along with stronger demand in Beijing and Shanghai, lower tariff rates to mainland China following WTO accession are making an impact on nut trade patterns.

Turkey has managed to surpass the United States as the largest supplier of in-shell hazelnuts to China and it has accounted for nearly 100 percent of China's shelled hazelnut imports in the 2002/2003 marketing year. Turkish hazelnuts appear to be gaining market share after landing in the eastern Chinese ports of Shenzhen, Guangzhou, and Tianjin at lower prices than United States hazelnuts. Furthermore, in the past two years, there has been a nationwide advertising campaign for in-shell and shelled Turkish hazelnuts with prominent displays in subway cars and on other forms of public transportation.

Of the 7790 MT of pistachios imported into China through the first three quarters of the marketing year, Iran accounted for 56 percent (4389 MT) of the imports and the United States accounted for 42 percent (3271 MT). Also, it appears as if around 90 percent of the imports arrived in the southern ports of Shenzhen (3735 MT), Guangzhou (1961 MT), and Huangpu (1316 MT). According to China Customs pricing data, United States origin nuts are about US \$66 higher per metric ton than Iranian origin nuts. The United States and Iranian nuts, however, are sometimes blended and seasoned by processors who are anxious to package the nuts as American. The nuts, when marketed as American, often have the Chinese characters for the United States and may display red, white, and blue colors or a flag similar to that of the United States. According to China Customs records, there are still sizeable imports of pistachios during July to September.

Southern hemisphere and equatorial countries dominate the market for macadamia nut exports to China. Australia (2184 MT), South Africa (420 MT), Kenya (323 MT), and Brazil (91 MT) have supplied over 99 percent of China's total 3041 MT imports of Macadamia nuts in the first three quarters of the marketing year. The import locations are primarily in southern China (Guangzhou 2072 MT, Gongbei 768 MT, Shenzhen 102 MT, and Ningbo 99 MT) where there are several tree nut processors/packagers. Over the past several years, it appears as if the greatest importing period for Macadamia nuts is in the last quarter (i.e. July to September) of the marketing year.

Chinese exports of tree nuts have been substantial considering the country is not considered a commercial producer of many other tree nuts. It appears that the bulk of these exports are from the processing for re-export industry. This industry is substantial and has existed in South China for some time. Pistachios, almonds, and macadamia nut exports have been

larger than exports of other nuts. It appears that processors and traders have the resources and machinery not only to add value to nuts for the domestic market but also for worldwide markets. However, Chinese exports in the first three quarters of the marketing year for pistachios, shelled almonds, and macadamia nuts are lower significantly. This is likely due to lower bonded imports for processing and re-export. Shelled hazelnut/filbert exports are greater by several metric tons.

Trade Tables

The following trade tables were compiled from World Trade Atlas using China Customs data. Please note that there are significant trade discrepancies between China Customs data and US BICO data. The combined US BICO export data to China, Hong Kong, and Macau are lower than China Customs recorded import data from the United States. It is possible some of the data being recorded by China Customs as United States origin is from other countries.

Walnut Trade by October through following September Marketing Years

Walnut Import and Export Tables (Volume: MT Value: Million USD)							
Imports from World		10/99 - 9/00		10/00 - 9/01		10/01 - 9/02	
		Volume	Value	Volume	Value	Volume	Value
080231	WALNUTS, FRESH OR DRIED, IN SHELL	732	0.27	332	0.25	879	0.58
080232	WALNUTS, FRESH OR DRIED, SHELLED	23	0.09	35	0.04	27	0.05
20081910	Walnut meats, prepd, in airtight containers	0	0.00	0	0.00	0	0.00
Walnut Import and Export Tables (Volume: MT Value: Million USD)							
Exports to World		10/99 - 9/00		10/00 - 9/01		10/01 - 9/02	
		Volume	Value	Volume	Value	Volume	Value
080231	WALNUTS, FRESH OR DRIED, IN SHELL	2,323	2.77	1,411	1.66	1,146	1.26
080232	WALNUTS, FRESH OR DRIED, SHELLED	8,006	20.59	9,923	28.01	6,021	17.47
20081910	Walnut meats, prepd, in airtight containers	620	2.48	700	2.70	643	2.86
Source: China Customs							

Walnuts by Marketing Year to Date

Walnut Import and Export Tables (Volume: MT Value: Million USD)					
Imports from World		10/01 - 6/02		10/02 - 6/03	
		Volume	Value	Volume	Value
080231	WALNUTS, FRESH OR DRIED, IN SHELL	851	0.55	462	0.59
080232	WALNUTS, FRESH OR DRIED, SHELLED	16	0.02	301	0.64
20081910	Walnut meats, prepd, in airtight containers	0	0.00	0	0.00
Walnut Import and Export Tables (Volume: MT Value: Million USD)					
Exports to World		10/01 - 6/02		10/02 - 6/03	
		Volume	Value	Volume	Value
080231	WALNUTS, FRESH OR DRIED, IN SHELL	1,133	1.25	1,703	2.00
080232	WALNUTS, FRESH OR DRIED, SHELLED	5,852	17.02	7,504	22.67
20081910	Walnut meats, prepd, in airtight containers	543	2.47	777	3.37
Source: China Customs					

Tree Nuts Imports and Exports (Volume: MT, Value: Million USD)							
		10/99 - 9/00		10/00 - 9/01		10/01 - 9/02	
Imports		Volume	Value	Volume	Value	Volume	Value
080131	Cashew Nuts, Fresh or Dried, In-Shell	651	0.16	397	0.26	204	0.07
080132	Cashew Nuts, Fresh or Dried, Shelled	202	0.44	3,399	6.09	6,824	12.43
080211	Almonds, Fresh or Dried, In-Shell	481	0.41	2,869	1.82	2,989	1.79
080212	Almonds, Fresh or Dried, Shelled	712	0.67	815	0.90	2,368	1.84
080221	Hazelnuts/Filberts, Fresh or Dried, In-Shell	2,329	1.63	3,637	1.76	8,534	4.17
080222	Hazelnuts/Filberts, Fresh or Dried, Shelled	67	0.24	101	0.26	162	0.41
080250	Pistachios, Fresh or Dried, Shelled or Not	9,146	5.10	11,388	7.28	9,461	6.96
08029049	Hawaiian nuts excl. seed, fresh or dried	5,915	2.11	7,516	2.40	6,782	2.00
		10/99 - 9/00		10/00 - 9/01		10/01 - 9/02	
Exports		Volume	Value	Volume	Value	Volume	Value
080131	Cashew Nuts, Fresh or Dried, In-Shell	19	0.04	1	0.00	10	0.01
080132	Cashew Nuts, Fresh or Dried, Shelled	47	0.04	144	0.34	74	0.15
080211	Almonds, Fresh or Dried, In-Shell	0	0.00	0	0.00	0	0.00
080212	Almonds, Fresh or Dried, Shelled	337	0.47	180	0.16	502	0.45
080221	Hazelnuts/Filberts, Fresh or Dried, In-Shell	0	0.00	3	0.01	90	0.11
080222	Hazelnuts/Filberts, Fresh or Dried, Shelled	123	0.06	10	0.03	0	0.00
080250	Pistachios, Fresh or Dried, Shelled or Not	2,011	2.14	1,266	1.21	2,075	1.87
08029041	Hawaiian nuts seed, fresh or dried	0	0.00	20	0.01	0	0.00
08029049	Hawaiian nuts excl. seed, fresh or dried	898	1.38	1,197	1.82	886	0.97
Source of Data: China Customs							

Tree Nuts Imports and Exports (Volume: MT, Value: Million USD)					
		10/01 - 6/02		10/02 - 6/03	
Imports		Volume	Value	Volume	Value
080131	Cashew Nuts, Fresh or Dried, In-Shell	194	0.05	40	0.08
080132	Cashew Nuts, Fresh or Dried, Shelled	5,085	9.07	5,258	7.96
080211	Almonds, Fresh or Dried, In-Shell	2,562	1.45	2,028	1.97
080212	Almonds, Fresh or Dried, Shelled	2,217	1.56	451	1.17
080221	Hazelnuts/Filberts, Fresh or Dried, In-Shell	7,990	3.81	1,493	1.37
080222	Hazelnuts/Filberts, Fresh or Dried, Shelled	146	0.37	324	0.82
080250	Pistachios, Fresh or Dried, Shelled or Not	8,553	6.17	7,789	8.64
08029049	Hawaiian nuts excl. seed, fresh or dried	3,637	1.14	3,041	1.58
		10/01 - 6/02		10/02 - 6/03	
Exports		Volume	Value	Volume	Value
080131	Cashew Nuts, Fresh or Dried, In-Shell	10	0.01	0	0.00
080132	Cashew Nuts, Fresh or Dried, Shelled	73	0.15	15	0.02
080211	Almonds, Fresh or Dried, In-Shell	0	0.00	0	0.00
080212	Almonds, Fresh or Dried, Shelled	263	0.23	71	0.07
080221	Hazelnuts/Filberts, Fresh or Dried, In-Shell	64	0.07	83	0.06
080222	Hazelnuts/Filberts, Fresh or Dried, Shelled	0	0.00	11	0.01
080250	Pistachios, Fresh or Dried, Shelled or Not	1,508	1.33	772	1.39
08029041	Hawaiian nuts seed, fresh or dried	0	0.00	0	0.00
08029049	Hawaiian nuts excl. seed, fresh or dried	627	0.59	491	0.50
Source of Data: China Customs					

Policy

As part of China's agricultural restructuring, China's State Forestry Administration introduced a pilot program called the *Sloped Land Conversion Program*. Between 1999-2000, the first year of the program, a total of 683,600 Ha were converted. Through 2002, a total of 3.85 million Ha were converted under the *SLCP*. The program provides cash, grain, and tree/grass seedling subsidies to farmers in exchange for retiring lands. The program allows for a maximum of 20 percent of the converted area to be for economic forest crops (e.g. walnuts, pecans, and other nut and fruit bearing trees). However, if fruit and nut trees are ecologically suitable, the trees can be planted in the ecologically suitable area, as well. Several specialists in key production bases believe that walnut and nut trees will be the trees of choice in conversion to economic forests. In some areas, walnut seedlings are estimated to comprise 5 to 10 percent of the total converted area. Walnut and other nut bearing trees are considered an attractive economic forest crop since the trees require less management and, in comparison to fruit crops, nuts can be kept longer and stored easier.

In general, the *SLCP* has been well received, but it has encountered some criticism. As it relates to tree nut crops, it seems growers are not managing the newly planted areas as well as they should. In addition, although growers are allowed to choose the varieties of trees they plant, many do not necessarily choose the most ecologically suitable varieties. Many growers neglect seeding quality and elect to plant seedlings that are cheaper per unit and at greater density than what is appropriate.

Tariff Rates

Tree Nut Tariff and VAT Rates for 2003 and 2004							
HS Code	Description	2003		Effective Rate	2004 Scheduled		Effective Rate
		Tariff	VAT		Tariff	VAT	
0801.31	Cashew nuts, In-shell	22.0%	13.0%	37.86%	20.0%	13.0%	35.60%
0801.32	Cashew nuts, Shelled	16.7%	13.0%	31.87%	13.3%	13.0%	27.69%
0802.11	Almonds, In-shell	25.2%	13.0%	41.48%	24.0%	13.0%	40.12%
0802.12	Almonds, Shelled	14.0%	13.0%	28.82%	10.0%	13.0%	24.30%
0802.2200	Hazelnuts/Filberts, Shelled	14.0%	13.0%	28.82%	10.0%	13.0%	24.30%
0802.2210	Hazelnuts/Filberts, In-shell	26.0%	13.0%	42.38%	25.0%	13.0%	41.25%
0802.31	Walnuts, In-shell	26.0%	13.0%	42.38%	25.0%	13.0%	41.25%
0802.32	Walnuts, Shelled	22.0%	13.0%	37.86%	20.0%	13.0%	35.60%
0802.50	Pistachios	15.0%	13.0%	29.95%	10.0%	13.0%	24.30%
0802.90	Macadamia Nuts	25.2%	13.0%	41.48%	24.0%	13.0%	40.12%
2008.1910	Walnut Kernels, In airtight containers	22.0%	17.0%	42.74%	20.0%	17.0%	40.40%
2008.1920	Other nuts, In airtight containers	14.0%	17.0%	33.38%	10.0%	17.0%	28.70%
2008.1999	Other nuts, In any other container	14.0%	17.0%	33.38%	10.0%	17.0%	28.70%
Source: China Customs							

Marketing

Traditional consumption of tree nuts and walnuts is as a snack food although many Chinese consumers consider tree nuts as a healthy snack food that possesses beneficial attributes for healthy hair and the brain. More and more, however, instead of purchasing tree nuts for their healthy attributes, retailers believe consumers appreciate the tree nuts as a leisure food.

With global trends towards more convenience type and leisure based snack foods, there has been an increase in the number branded and packaged tree nuts in retail outlets, especially hypermarkets and supermarkets. Often, Chinese retail packages of shelled walnuts and other tree nuts are in bags ranging in weight from as low as 90 grams to as high as 400 grams. Many of the packaged walnuts are sweetened or glazed with sugar or honey and often sprinkled with sesame seeds. Lately, packaged sweetened shelled almonds have appeared in retail markets, as well. In some instances, the shelled almonds are in a candy coating shell. Many hypermarkets and supermarkets carry tree nuts, both shelled and in-shell in plastic jugs that weigh between 300 and 500 grams. Perhaps more important than size, consumers often purchase on the basis of retail package pricing. While market prices vary by commodity and location, the greater the processing and the nicer the packaging, the higher the retail price. (Previous issues of the Tree Nut Annual Report contain retail pricing information).

Often, the country of origin listed on the packaging or packages will carry symbolic colors such as red, white, and blue. However, some foreign nut suppliers and/or exporters have expressed concern that less scrupulous tree nut processors within China often blend high- and low-quality nuts and misrepresent packaged products as American origin nuts to retailers and consumers in order to achieve higher profit margins for selling lower quality product that is perceived as a higher quality American tree nut.

The other market for sales of tree nuts in the retail sector is within bulk bin sales. Bulk bin shelled and in-shell nuts like almonds, walnuts, pistachios and cashews, have been a strong snack food sales item for hypermarkets and supermarkets. However, a recent survey of retail stores in several cities throughout the country has shown less diversity of bulk bin tree nut products available. Instead, many of the bulk bin items are dried fruits and candies. Despite the decreased variety of tree nuts available in bulk bins, many consumers indicate that they prefer in-shell bulk bin nuts because the prices are lower and, in many cases, nuts that consumers shell themselves are cleaner than nuts that are pre-shelled.

The use of nuts in the bakery sector appears to be increasing, although slowly. Many bakers such as large commercial bakeries, hotels, hypermarkets (with in-store bakeries), and confectionary shops have received training in the use of nuts as an ingredient for breads, cakes, and cookies. As a result, the number of baked goods with nuts in or on products for edible decorative purposes has increased considerably. The popularity of such items remains strong and is growing. Several hypermarket operators have stated that loaves of bread with tree nuts (especially walnuts) baked into them are the leading sale item within the bakery section of their stores. Also, hypermarkets have expressed interest in learning about how other nuts can be used in the bakery sector or how nuts can be used with other baked or pre-made goods. One attribute that many shelled nuts from foreign enterprises may have is that foreign matter content (e.g. shell) is often lower than some domestic shelled nuts.

Many international and Chinese domestic brand candy manufacturers have also been increasing the variety of their products containing tree nuts. There appears to be more chocolate covered nuts and candy bars containing tree nuts like hazelnuts and almonds on the shelf now than last year at this time. This trend appears likely to continue so long as China's snack food industry continues to expand.

The re-export market has also been another leading factor for growing tree nut sales to China as the processing for re-export sector has expanded. Importers and food processing manufacturers have been importing nuts for shelling, packaging, seasoning, etc., for re-export for some time. However, it is difficult to tell the exact volume of this type of business, it is reasonable to assume it is huge for some tree nuts (e.g. pistachios and macadamia nuts); especially since China does not commercially produce many of the tree nuts Chinese Customs records and reports as exports. (See Trade in this report).

Products entering China for processing (e.g. shelling and packaging) and re-export have the privilege of being able to enter the country VAT and tariff free so long as the processor provides a deposit to Customs authorities and the processed product exits the country. However, in many instances, the deposit is equal to or greater than the tax assessment and if the processor does not have funds available, the requirement has the effect of limiting the volume the processor may want to import. Then, once the processed nuts are exported, the processor can reclaim the deposit or leave the funds with the customs office until the next shipment for processing contract arrives. To determine if the deposits are returned to the processor, Customs record the volume exported and compare it with the volume of the shell waste. If the exported product and waste product records appear reasonable and are similar to total import volume, processors can have their deposits returned or have counted against future processing contracts.